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**FISCAL IMPACT STATEMENT**

**LS 7350**

**BILL NUMBER:** HB 1448

**NOTE PREPARED:** Feb 24, 2009

**BILL AMENDED:** Feb 23, 2009

**SUBJECT:** Indiana Long-Term Care Savings Plan.

**FIRST AUTHOR:** Rep. Welch

**FIRST SPONSOR:**

**BILL STATUS:** 2<sup>nd</sup> Reading - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill establishes a Long-term Care Savings Plan (Plan) for a participant to fund an account to pay eligible long-term care expenses of the participant.

The bill establishes a board of directors (board) to develop and implement the plan. It designates the Treasurer of State as the board chair. The bill authorizes the board to: (1) administer the plan; (2) enter into agreements with financial institutions to receive participant contributions in the form of account deposits; or (3) do both.

The bill limits plan contributions to \$165,000 during a participant's lifetime. It indexes the limitation for inflation. The bill also provides a state income tax deduction of \$1,000 for an individual and \$2,000 for a joint return for contributions to the plan in a taxable year. The bill provides that qualified withdrawals from the plan to pay eligible long-term care expenses are exempt from state income tax, and nonqualified withdrawals are subject to a 10% penalty and state income tax on the amount withdrawn.

The bill establishes a Long-term Care Savings Plan Trust (Trust) administered and managed by the board to invest participants' contributions to the plan. It also provides that the Plan and Trust are not obligations of the state.

**Effective Date:** July 1, 2009.

**Explanation of State Expenditures:** *Department of State Revenue (DOR)*- The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. The DOR's existing budget and resources should be sufficient to implement this

provision.

(Revised) *Long-term Care Savings Plan Trust*: The bill establishes the Indiana Long-term Care Savings Plan Trust to be administered by a five-member board of directors. The board is to consist of the State Treasurer, who will serve as chair, the Commissioner of the Department of Insurance, and three members appointed by the Governor. Members will not receive per diem, but will be entitled to reimbursement for travel and other expenses incurred in connection with the members' duties.

The board may (1) administer the Plan, (2) enter into agreements with financial institutions to receive participant contributions in the form of account deposits, or (3) use a combination of the two approaches. The start-up and regulatory costs could be significant depending on the approach selected and the manner of implementation. The level of new administration costs has not at this time been determined. The administrative costs of the Plan, including the surety bond required by the bill for board members, is to be paid from the earnings of the Trust before the earnings are credited to participants' accounts.

The Trust is to consist of the following:

- (1) Each participant's contributions to the Plan.
- (2) All earnings on investments or deposits of the Plan.
- (3) All gifts, grants, devises, or bequests in money, property, or another form made to the Plan.
- (4) All contributions or payments to the Plan made in a manner provided by the General Assembly.

After December 31, 2009, an individual may participate in the Plan by entering into a participation agreement with the board, if the board administers the plan; or (2) making contributions to an account at a financial institution with which the board has an agreement.

The board may adopt rules necessary to implement the Plan and Trust, and the board must annually report to the Governor and the General Assembly.

*Future Medicaid Expenditures*: To the extent that the deduction encourages purchases of long-term care insurance or savings specifically for long-term care expenses that would not have occurred otherwise, there is some potential for a reduction in future Medicaid expenditures.

**Explanation of State Revenues: Summary-** The bill could reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers for contributions to a Long-term Care Savings Plan. This bill provides a deduction from AGI of up to \$1,000 annually for a single or separate filer and \$2,000 annually for a joint filer for contributions to a Plan by the taxpayer. Based on the 3.4% tax rate, the deduction would reduce AGI Tax revenue by a maximum of \$34 per year for a single or separate filer or \$68 per year for a joint filer. If 1,000 filers claim the maximum deduction, the revenue loss could range from \$34,000 to \$68,000 depending upon the distribution of single/separate filers and joint filers claiming the deduction. The total number of individuals who might claim the deduction is unknown.

Since the deduction is effective beginning in tax year 2010, the fiscal impact would begin in FY 2011. Revenue from the AGI Tax on individuals is deposited in the state General Fund.

**Background Information-** This bill allows individuals to establish a Long-term Care Savings Plan account to be controlled by the participant. Contributions to the Plan are deductible from the individual's AGI, up to a maximum of \$1,000 per year for single or separate filers and \$2,000 per year for joint filers. The maximum lifetime contribution for a participant is \$165,000, which will be adjusted for inflation.

Qualified withdrawals for which a withdrawal and earnings will not be subject to state taxes or a 10% penalty include withdrawals made (1) to pay for eligible long-term care expenses, (2) because of the death or disability of the participant, or (3) to transfer a participant's account to the participant's spouse. Eligible long-term care expenses include an expense paid by a participant for long-term care provided to the participant or a premium paid by a participant who is at least 50 years of age for a qualified long-term care insurance policy. Qualified long-term care insurance policies are those policies approved by the Indiana Long-Term Care Program (Partnership policies).

The level of future contributions to Long-term Care Savings Plans is unknown, largely due to lack of information on how taxpayers will view these Plans relative to other savings, investment, and insurance alternatives available to the taxpayers. Other alternatives include (1) conventional IRA and 401(k) plans which are subject to favorable state *and* federal tax treatment and have different restrictions on the use of the funds upon withdrawal, and (2) conventional and Partnership long-term care insurance. (Current statute provides a state income tax deduction for premiums paid for Partnership policies.)

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes may, as a result, experience an indeterminable decrease in revenue from these taxes.

**State Agencies Affected:** DOR; State Treasurer, Department of Insurance.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:**

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